3Q13 MD&A: Advanced Info Service Plc.

Executive Summary

September marked the 5th month of our 3G 2.1GHz official launch. We registered in total 10.5mn subscribers under 3G 2.1GHz license or 27% of total subscriber base. By revenue, we generated 27% of service revenue, excluding IC, in 3Q13 under 3G-2.1GHz license. Our regulatory cost is lower under the 2.1GHz license but this was initially offset by network expansion and marketing spending.

Key revenue driver is the increased adoption of smartphone rather than simply subscribers moving from 2G to 3G platform. Smartphone penetration is 24% on our subscriber base compared to 16% a year ago. This has been the key driver to postpaid revenue and ARPU. We also witnessed subscribers shifting from prepaid toward postpaid and hence revenue and ARPU on prepaid seemed soften, apart from the seasonally weak 3Q.

Capex was Bt19bn in the first 9 months against the 3-year capex plan of Bt70bn to build 3G network. We now achieved 70% network coverage with 9,500 3G base stations in all 77 provinces. Further expansion is needed both in terms of coverage and capacity to strengthen our network quality and bring us closer to customer expectation. We target to bring coverage further to 90% in 2014.

3Q13 revenue reflected weak seasonality and soften consumer sentiment. EBITDA margin seemed higher due to the recognition of lower interconnection rate. Without IC impact, EBITDA margin slightly declined as operating expense rose on 3G expansion despite of lower regulatory cost. 3Q13 net profit declined 5% YoY and 9% QoQ due to rising D&A. For 9M13, we reported EBITDA growth of 3% and net profit growth of 4%.

Revenue guidance is revised down to 5-6% growth from previously 6-8% following cautious consumer spending. This follows service revenue growth in 9M13 of 5.5%. EBITDA margin guidance remains unchanged at 43% as we expect costs rising toward 4Q.

Significant Events

1. **1800MHz agreement expiration**
   Digital Phone Company Limited (DPC), an AIS subsidiary, operated under Built-Transfer-Operate (BTO) agreement with CAT which expired on 15 September 2013. The National Broadcasting and Telecommunication Commission (NBTC) announced a temporary measure assigning the operator to continue service for up to 1 year after the expiration date. The application of the rules and conditions has yet to be clarified in details by the NBTC. Therefore, starting from 16 September 2013, we no longer recognize revenue share to CAT while the approach to revenue and operating cost recognition remains unchanged.
2. **Interconnection rate reduction**
   Starting from July-13, the NBTC announced a new interconnection rate (termination rate) of Bt0.45/minute from the previous rate of Bt1/minute applied across all mobile operators. This affected both IC revenue and cost recognition which positively impacted EBITDA margin.

Operational Summary

In 3Q13, AIS **subscribers** reached 39mn with a **net addition** of 1.46mn mainly from prepaid segment following the NBTC's regulation on lengthen prepaid validity resulting in lower prepaid churn. After the commercial launch of 3G-2.1GHz in May-13, AIS witnessed an overwhelming customer response with 10.5mn subscribers, representing 27% of total subscribers. Subscription on 2G-900/1800MHz continued to decline to 28.7mn.

Postpaid Average Revenue Per User (ARPU) increased YoY and QoQ underpinned by growing smartphone adoption while voice MoU declined. **Prepaid ARPU** and **MoU** dropped YoY and QoQ, due to larger subscriber base from longer validity and weak consumer sentiment.

3Q13 was the first quarter that 3G ARPU was fully recognized with Bt820 for postpaid and Bt219 for prepaid. We witnessed the migration of high valued customers and smartphone users to the new 3G-2.1GHz service, resulting in higher level of 3G ARPU compared to 2G and declining trend of 2G ARPU.

Subscribers	3Q12	4Q12	1Q13	2Q13	3Q13
2G[1]	35,323,900	35,743,700	37,118,900	33,720,100	28,653,700
3G[2]	-	-	-	3,946,300	10,471,400
Postpaid	3,546,300	3,683,300	3,825,800	3,947,000	4,053,700
Prepaid	31,777,600	32,060,400	33,293,100	33,719,400	35,071,400
Total subscribers	**35,323,900**	**35,743,700**	**37,118,900**	**37,666,400**	**39,125,100**
Net additions					
2G[1]	515,500	419,800	1,375,200	-3,398,800	-5,066,400
3G[2]	-	-	-	3,946,300	6,525,100
Postpaid	77,700	137,000	142,500	121,200	106,700
Prepaid	437,800	282,800	1,232,700	426,300	1,352,000
Total net additions	**515,500**	**419,800**	**1,375,200**	**547,500**	**1,458,700**

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ARPU (Baht/subs/month)	3Q12	4Q12	1Q13	2Q13	3Q13
2G[1]	249	258	254	236	208
3G[2]	-	-	-	396	360
Postpaid	676	683	683	686	698
Prepaid	202	210	204	195	187
Blended	**249**	**258**	**254**	**244**	**236**
MOU (minute/sub/month)					
2G[1]	340	340	339	320	305
3G[2]	-	-	-	362	366
Postpaid	495	483	470	450	444
Prepaid	323	324	323	308	302
Blended	**340**	**340**	**339**	**322**	**317**

Financial Summary

Revenue

In 3Q13, AIS **total revenue** was at Bt33,477mn, a decrease of 0.7% YoY, and 7% QoQ due to the change in interconnection rate from Bt1/minute to Bt0.45/minute starting from July 1st. In 9M13, total revenue stood at Bt106,960mn, an increase of 3.5% YoY.

- **SIM & device sales,** which contributed 11% of total revenue, were Bt3,687mn for 3Q13, an increase of 22% YoY as demand for smartphone continued. However, sales were softer 12% QoQ due to the lack of high-end model line-up during the quarter. The sales margin continued its downward trend. In 9M13, SIM & device sales grew 12% YoY, while the sales margin stood at 7%.

- **Service revenue, excluding IC,** which contributed 84% of total revenue, was Bt27,964mn, an increase of 4.1% YoY supported by mobile data growth, but slightly dropped 0.4% QoQ due to softer voice revenue. In 9M13, service revenue, excluding IC, rose 5.5% YoY. As 3G-2.1GHz network is expanding, both new and existing customers are subscribing to the new 3G service. Revenue continued shifting from 2G-900MHz to 3G-2.1GHz service which now contributed 27% of service revenue, excluding IC, in 3Q13. *Voice revenue* continued to decline on weaker consumer sentiment. In 9M13, voice revenue dropped 1.5%. *Non-voice revenue,* in 3Q13, increased 23% YoY and 3.6% QoQ driven by expansion of smart devices users which represented 24% of total subscribers compared to 16% last year. During the quarter, AIS promoted the co-branded handsets with an effort to increase smart devices penetration among mid- to low-ends customers. In 9M13, non-voice revenue increased 26% YoY. *International roaming (IR)* decreased 4.5% QoQ as 3Q is not yet the tourist season. In 9M13, the IR revenue declined 4.5% from global price pressures, which was partly offset by growing users and usage of data roaming service. *International call & other business* for 9M13 grew 14% from infrastructure rental revenue.

- **Interconnection charges (IC)** Due to IC rate reduction from Bt1/minute to Bt0.45/minute, IC revenue and cost declined over 50% both YoY and QoQ. The voice pricing in the market has remained rational. In 9M13, AIS was a net IC recipient of Bt506mn, an increase of 35% YoY.

Cost & Expenses

Cost of service, excluding IC in 3Q13 was Bt13,354mn, stable QoQ and slightly increased YoY as cost related to 3G-2.1GHz network expansion was partly offset by lower regulatory fees. In 9M13, cost of service, excluding IC, increased 4.8% YoY.

- **Regulatory fee** (composes of revenue share under 900/1800MHz BTO contract and license fee & other fee under 2.1GHz license) was Bt6,217mn, a decrease of 12% YoY and QoQ from the shift in revenue to the 3G-2.1GHz license system which offer lower cost structure than the 900MHz/1800MHz BTO system. In 3Q13, regulatory fee dropped to 22% to service revenue, including net IC, from 26% in 2Q13. In 9M13, regulatory fee was stable.

- **Depreciation & amortization** (D&A) was Bt4,338mn, an increase of 15% YoY and 8.8% QoQ from 2.1GHz network investment and license amortization while partly offset by lower amortization of assets under BTO. In 9M13, D&A rose 5% YoY.

- **Network OPEX** rose 29% YoY and 18% QoQ to Bt2,200mn following the rapid 3G-2.1GHz network expansion of 9,500 base stations, covering 70% of population as of 3Q13. In 9M13, network OPEX was Bt5,798mn, an increase of 29%YoY.

- **Other cost of service** was Bt598mn, an increase of 15%YoY from cost of enhancing service channel to support 3G. In 9M13, other cost of service rose 7.3% YoY.

SG&A expense was Bt4,066mn, an increase of 43% YoY and 21% QoQ mostly from marketing activities and expenses related to the new 3G-2.1GHz service. In 9M13, SG&A expense rose 25%YoY.

- **Marketing expense** increased two-fold YoY and 41% QoQ to Bt1,289mn to promote 3G-2.1GHz service. In 9M13, marketing spending accounted for 2.7% to total revenue, rising toward the full year guidance at 3-3.5%.

- **General admin expenses** increased 25% YoY and 15% QoQ to Bt2,522mn due to employee special reward, write-off of obsolete equipment, and expenses related to 3G-2.1GHz. In 9M13, general admin expense increased 15% YoY from the Bt193mn write-off of obsolete equipment and increased headcount.

- **Bad debt** was Bt196mn, an increase of 58% YoY and 4% QoQ from growing postpaid segment. In 9M13, bad debt accounted for 2.4% to postpaid revenue, compared to 1.9% last year. The level of bad debt remains under normal business circumstance.

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Profit

In 3Q13, AIS recorded **EBITDA** of Bt15,329mn, relatively flat YoY and slightly declined 2.7% QOQ due to 3G-2.1GHz network expansion. As a result of lower IC rate, **EBITDA margin** expanded to 45.8% in 3Q13, compared to 43.7% in 2Q13 and 45% in 3Q12. Without IC impact, EBITDA margin slightly declined due to higher expense related to 3G-2.1GHz launch. **Net profit** was Bt8,341mn, a decrease of 5.1%YoY and 9.3% QoQ, due to higher D&A.

In 9M13, EBITDA stood at Bt47,375mn, increasing 3% YoY while net profit rose 3.9% to Bt27,458mn. EBITDA margin was 44.3%, above the full year guidance of 43%, as we expect rising cost toward the end of the year.

Financial position

As we are in the new capex cycle to build new 3G-2.1GHz network, our fixed assets continued to rise to Bt50,078mn in 3Q13 from Bt45,684mn last quarter. However, total assets declined from to Bt101,631mn largely caused by lower cash after interim dividend payment. Liquidity remained healthy with the current ratio of 0.73. During the quarter, AIS draw downed the new short term loans of Bt5,000mn to refinance a retired debenture of Bt4,000mn. Our gearing remained low with net debt to EBITDA of 0.12 times and net debt to equity of 0.19 times.

Cash Flow

In 9M13, AIS generated a strong cash flow from operation of Bt43,594mn which increased 4% from the same period last year. Cash outflow for capex reached Bt18,945mn following the 3G-2.1GHz network expansion. Free cash flow (EBITDA-CAPEX) went down 29% YoY to Bt28,430mn as a result of the increased capex. Dividend of Bt33,889mn was also paid in September.

Income statement (Bt-million)	3Q12	2Q13	3Q13	%YoY	%QoQ	9M12	9M13	%YoY
Voice revenue	18,453	18,202	17,828	-3.4%	-2.1%	55,565	54,709	-1.5%
Non-voice revenue	6,679	7,921	8,205	23%	3.6%	18,972	23,813	26%
International Roaming	609	651	622	2.1%	-4.5%	2,022	1,931	-4.5%
Others (IDD, other fee)	1,123	1,310	1,310	17%	-0.1%	3,553	4,045	14%
Service revenue excluding IC	**26,863**	**28,084**	**27,964**	**4.1%**	**-0.4%**	**80,112**	**84,498**	**5.5%**
IC revenue	3,822	3,715	1,826	-52%	-51%	11,611	9,414	-19%
SIM and handset sales	3,020	4,209	3,687	22%	-12%	11,627	13,048	12%
Total revenues	**33,705**	**36,007**	**33,477**	**-0.7%**	**-7.0%**	**103,349**	**106,960**	**3.5%**
Cost of service	(16,753)	(17,020)	(15,048)	-10%	-12%	(49,921)	(49,458)	-0.9%
Regulatory fee	(7,076)	(7,088)	(6,217)	-12%	-12%	(21,092)	(20,946)	-0.7%
Depreciation & Amortization	(3,787)	(3,987)	(4,338)	15%	8.8%	(11,581)	(12,162)	5.0%
Network operating expense	(1,707)	(1,873)	(2,200)	29%	18%	(4,481)	(5,798)	29%
Other cost of services	(522)	(543)	(598)	15%	10%	(1,532)	(1,645)	7.3%
IC cost	(3,661)	(3,530)	(1,694)	-54%	-52%	(11,236)	(8,908)	-21%
Cost of SIM and handset sales	(2,733)	(3,907)	(3,483)	27%	-11%	(10,654)	(12,136)	14%
Total costs	**(19,485)**	**(20,927)**	**(18,531)**	**-4.9%**	**-11.5%**	**(60,575)**	**(61,594)**	**1.7%**
Gross profit	**14,220**	**15,080**	**14,946**	**5.1%**	**-0.9%**	**42,774**	**45,367**	**6.1%**
SG&A	(2,846)	(3,349)	(4,066)	43%	21%	(8,342)	(10,437)	25%
Marketing Expense	(646)	(917)	(1,289)	100%	41%	(1,903)	(2,912)	53%
General administrative & staff cost	(2,025)	(2,189)	(2,522)	25%	15%	(5,907)	(6,779)	15%
Bad debt provision	(125)	(189)	(196)	58%	4.0%	(385)	(578)	50%
Depreciation	(50)	(55)	(59)	18%	8.0%	(147)	(169)	14%
Operating profit	**11,374**	**11,731**	**10,880**	**-4.3%**	**-7.3%**	**34,432**	**34,930**	**1.4%**
Net foreign exchange gain (loss)	47	(155)	(35)	-173%	-78%	50	-18	-136%
Other income (expense)	282	207	153	-46%	-26%	808	593	-27%
Finance cost	(255)	(258)	(241)	-5.6%	-6.8%	(835)	(774)	-7.3%
Income tax	(2,638)	(2,339)	(2,438)	-7.6%	4.2%	(7,943)	(7,300)	-8.1%
Non-controlling interest	(23)	9	22	-192%	139%	(86)	28	-132%
Net profit for the period	**8,787**	**9,195**	**8,341**	**-5.1%**	**-9.3%**	**26,426**	**27,458**	**3.9%**

Service revenues (Bt-million)	3Q13	2Q13	3Q13	%YoY	%QoQ	9M12	9M13	%YoY
2G revenue[1]	25,741	24,466	19,005	-26%	-22%	76,559	70,496	-7.9%
3G revenue[2]	-	2,307	7,650	NA	232%	-	9,957	NA
Service revenues *(voice, non-voice, inter roaming)*	**25,741**	**26,773**	**26,654**	**3.5%**	**-0.4%**	**76,559**	**80,453**	**5.1%**

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EBITDA (Bt-million)	3Q12	2Q13	3Q13	%YoY	%QoQ	9M12	9M13	%YoY
Operating Profit	11,374	11,731	10,880	-4.3%	-7.3%	34,432	34,930	1.4%
Depreciation & amortization	3,837	4,042	4,398	15%	8.8%	11,728	12,330	5.1%
(Gain) loss on disposals of PPE	0	32	93	NA	190%	(9)	239	NA
Management benefit expense	(39)	(49)	(36)	-7.2%	-27%	(112)	(119)	5.8%
Other financial cost	(11)	(3)	(5)	-57%	46%	(31)	-6	-81%
EBITDA	**15,162**	**15,753**	**15,329**	**1.1%**	**-2.7%**	**46,009**	**47,375**	**3.0%**

Financial Position (Bt-million/% to total asset)	2Q13		3Q13	
Cash	25,458	23.5%	14,287	14.1%
ST investment	1,459	1.3%	1,561	1.5%
Trade receivable	8,432	7.8%	8,776	8.6%
Inventories	1,568	1.4%	1,571	1.5%
Others	4,393	4.0%	4,543	4.5%
Current Asset	**41,311**	**38.1%**	**30,739**	**30.2%**
Spectrum license	14,093	13.0%	13,847	13.6%
Network and PPE	45,684	42.1%	50,078	49.3%
Intangible asset	2,115	1.9%	2,095	2.1%
Defer tax asset	4,721	4.3%	4,225	4.2%
Others	640	0.6%	648	0.6%
Total Assets	**108,563**	**100.0%**	**101,631**	**100.0%**
Trade payable	7,035	6.5%	8,150	8.0%
ST loan & CP of LT loans	6,970	6.4%	7,976	7.8%
Accrued R/S expense	9,520	8.8%	11,036	10.9%
Others	15,011	13.8%	15,082	14.8%
Current Liabilities	**38,536**	**35.5%**	**42,244**	**41.6%**
Debenture & LT loans	13,461	12.4%	13,470	13.3%
Total Liabilities	**60,775**	**56.0%**	**64,548**	**63.5%**
Retained earning	21,598	19.9%	10,913	10.7%
Total Equity	**47,788**	**44.0%**	**37,084**	**36.5%**

Key Financial Ratio	3Q12	2Q13	3Q13
Interest bearing debt to equity	0.57	0.43	0.58
Net debt to equity	Net cash	Net cash	0.19
Net debt to EBITDA	Net cash	Net cash	0.12
Current Ratio	1.01	1.07	0.73
Interest Coverage	47	46	46
DSCR	4.9	6.3	5.5
ROE	88%	85%	79%

Debt repayment schedule	Debenture	Loan (Bt-million)
1Q13	-	-
2Q13	4,000	247
3Q13	4,000	-
4Q13	-	5,247
2014	2,500	2,939
2015	-	2,399
2016	-	3,707
2017	-	1,801
2018	-	2,799

Source and use of fund : 9M13			(Bt-million)
Source of Fund		**Use of Fund**	
Operating CF before change in working capital	48,219	Dividend payment	33,889
Cash decreased	9,185	CAPEX & Fixed assets	18,945
Proceeds of short-term borrowings	5,000	Income tax paid	8,736
Changes in working capital	4,112	Debt repayment	8,243
Proceeds of long-term borrowings	3,812	Finance cost and finance lease paid	772
Interest received	465	Net change in current/long investments	221
Sale of property and equipment	14		
Total	**70,807**	**Total**	**70,807**

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FY2013 MANAGEMENT OUTLOOK & STRATEGY (revised)

Service revenue growth *(revised from 6-8%)*	5-6% YoY
3G-2.1GHz subscribers *(maintained)*	10-12 million, 40% using 3G devices
EBITDA margin *(maintained)*	~43%
CAPEX *(maintained)*	Bt70bn in 3 year (10% allocated for 2G maintenance)
Network amortization *(maintained)*	Increase by 1-2% YoY (excluding amortization of license fee)

Maintain investment plan of Bt70bn for 2013-15

Since receiving the license to operate 3G on 2.1GHz in Dec-12, we now successfully achieve 70% coverage in more than 77 provinces around Thailand. Target is to provide 90% population coverage by 2014 and 97% by 2015. To achieve this roll-out plan, our estimated CAPEX is Bt70bn from 2013 to 2015, of which around Bt19bn was already spent during the first nine months.

On target to achieve 12m 3G-2.1GHz subscriber

After the service launch in early May, we have registered 10.5mn subscribers on 3G-2.1GHz. This figure is supported by our fast network coverage rollout. The target for full year is 10-12mn. Of this amount, we estimate 3G device penetration of 40%.

Revised down revenue guidance to 5-6% YoY growth

In 9M13, our service revenue grew 5.5% on the back of slower voice growth from weak consumer sentiment following economy slowdown in 3Q. To reflect weak economic sentiment, we revised down service revenue growth this year to 5-6% from previously 6-8%. With the lack of voice growth, revenue driver depends more on rising adoption of smartphone users who tend to generate higher level of ARPU.

Lower regulatory cost will initially be offset by rising OPEX

By encouraging subscription and hence generating revenue on 3G-2.1GHz license, regulatory cost is trending down (5.25% of revenue versus 20-30% on the original 2G-900MHz contract). However, operating cost and marketing spending are rising upon launching network and service of 3G-2.1GHz and will offset the lower regulatory fee. We therefore forecast our EBITDA margin to be relatively flat compared to 2012 at 43%.

Maintain the dividend policy: 100% dividend payout

The company aims to maintain the same dividend policy that commits 100% payout ratio and pays a dividend twice a year. The dividend payout ratio is based on consolidated earnings and subject to the availability of retained earnings on the separated financial statement. This commitment is supported by our strong cash flow from operations and a low debt level. The CAPEX and license payment will be funded by internal cash flow and additional borrowings if required. Given that the company is currently in a net cash position and has a strong financial credit rating (A- by S&P), the management is confident to raise gearing as appropriate. If and when there are any new business opportunities or significant changes that may impact on our future operation and investment, and hence capital structure, the company will promptly discuss any new direction with the investment community.

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